

CONFRONTING STATE CAPTURE IN MOLDOVA

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The Republic of Moldova faces a critical fight with corruption as elite networks undermine the government. Until impunity in Moldova is addressed, it will continue to tenuously exist as a dysfunctional state on Europe's eastern border.

Key findings

- The concentration of power in Moldova in an unelected oligarchy undermines state institutions.
- Moldova's foreign partners must do more to build Moldova's institutional capacity and to combat state capture.
- While challenging corrupt networks in the short-term will likely increase political instability, the price of doing nothing in the long-term will be much higher.

Executive summary

Corruption undermines long-term development in the Republic of Moldova. Grand corruption is consolidating in a small circle of elites, centered around the nominally pro-European Vladimir Plahotniuc. The elite level capture of the state undermines European integration and, if left unaddressed, will serve as a destabilizing force. The US and EU, following the lead of Moldovan civil society actors, must do more to challenge the capture of the Moldovan state by the kleptocracy.

Analysis

In Moldova, high levels of petty corruption and grand corruption are undermining the state. Petty corruption forces citizens to pay bribes for services of local government institutions, hospitals, universities, and law enforcement. Grand corruption occurs when elites steal large sums of money with impunity, undermining the highest levels of the state to protect their own interests at the expense of society. State capture occurs when a powerful individual or group uses corrupt practices to control or influence a state's policies, economy or legal system for their personal benefit.¹ All three forms of corruption are common in Moldova, integrally linked, and need to be addressed concurrently and comprehensively.

The Economic and Demographic Consequences of Corruption



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Corruption is not a new problem in Moldova, but public perception of the level of grand corruption reached new heights in 2015 when it was discovered that the methodical theft of funds over the course of a month from three of Moldova's primary banks resulted in a loss of over one billion dollars, representing more than an eighth of the country's GDP. Around the same time in 2014, the Organized Crime and Corruption Reporting Project reported that a Moldovan bank, with facilitation by judges and government officials, was used to transfer \$20.8 billion in stolen Russian funds in what is known as the "Russian Laundromat." The organs of the Moldovan state that have a responsibility to investigate and prosecute corruption have been captured by elite interests and have failed to prosecute those responsible for the crimes.

With one of the lowest Gross Domestic Product and Human Development Index ratings in Europe, Moldova faces underlying demographic and corruption issues that impede economic development. An unfriendly business environment plagued by brain drain, a system of selective justice, and overwhelming corruption, all undermine economic growth while also hindering economic development. Meanwhile, massive emigration from Moldova plays a significant role by reducing social pressure, while also facilitating broad political apathy, brain drain, and a concession of the state to corrupt interests.

Corruption's Corrosive Effect

A February 2018 IRI poll found that 96% of Moldovans surveyed identified corruption as a major problem. Transparency International's Corruption Perceptions index ranks Moldova 122nd out of 180 in corruption, indicating steadily rising rates of perceived corruption since 2012. The World Bank's Worldwide Governance Indicators chronicle Moldova's decline since 2011 in all areas of governance, and most notably in the areas of rule of law and control of corruption. At the center of this corruption, Plahotniuc continues to solidify his power. A Carnegie Endowment report describes his control of the government as a diffuse vertically integrated network in which petty corruption undermines low-level bureaucrats and other professionals. Moving up the network, the corrupt system undermines the justice sector and legislative branch in return for protection from prosecution. Those charged for corruption are often selectively targeted by Plahotniuc's political machine.

Plahotniuc and his allies, working with their supposed rivals in the Party of Socialists (POS), passed electoral legislation that solidified both parties hold on power in the parliament in 2017 by shifting from a proportional to a mixed electoral system. The mix of single districts and proportional districts will serve to benefit already established parties and moneyed incumbents.² The Venice Commission and OSCE both analyzed this legislation and found that it places the Moldovan government at even greater risk to undue influence by political or business interests. Until this change is reverted there is no hope of addressing the serious corruption through independent courts or a special commission.



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The endemic nature of corruption is a major problem facing outside actors seeking to further Moldova's development. Led by the Democratic Party's leader, Vladimir Plahotniuc, corrupt actors have positioned themselves as nominally pro-European, undermining public support for European integration. These politicians seek to benefit from the geopolitical tug of war between Russia and the West. Consequently, anger from voters toward corruption manifests itself against those supporting greater European integration and democratic institutions, and bolsters support for parties such as the Party of Socialists which aims to revert Moldova's European economic integration and democratic development.

Checks on Oligarchic Power: Civil Society and Foreign Partners

Effective checks on oligarchic power in Moldova are limited. Those that exist depend on cooperation between foreign donors, such as the IMF, EU, US, European Commission and European Countries, and on Moldovan civil society. Draft laws similar to those used to stifle civil society in the Russian Federation have been considered by Moldova's parliament, which would place restrictions on Civil Society Organizations (CSOs) receiving external funding. Civil society and foreign diplomatic missions applied pressure to defeat the proposal of these draconian measures in the summer of 2017, but the proposed legislation exposes the elites' intention to limit civil society in Moldova.

The European Union is losing patience with the kleptocratic tendencies of Moldova's ruling Democratic Party. The Association Agreement (AA) signed with the EU in 2014, identified the fight against corruption as a key commitment of the EU in Moldova. In October of 2017, the EU's External Action Service suspended 28 million euros of financing in support for judiciary reforms due to "insufficient commitment" by Moldovan authorities to implement reforms. The United States, which since 1992 has provided more than \$1.4 billion in support to Moldova, has been slower in its criticism of Plahotniuc. The Moldovan oligarch has visited the US several times and, in May of 2016, the unelected leader of Moldova's Democratic party, traveling on a tourist visa, met with a number of US senators and representatives in addition to Assistant Secretary of State Victoria Nuland. James Pettit, the US Ambassador to Moldova, has made it clear through Moldovan media that the US does not support Plahotniuc and seeks relationships with the leaders of all political parties, but the US relationship with the oligarch remains a concern for many within Moldova.

Because the current corrupt forces derive their power from control over government institutions, there will be decreasing interest at the elite level in undertaking the necessary reforms detailed in the AA or the Deep and Comprehensive Free Trade Agreement (DCTFA) to truly confront corruption. On its current track, Moldova's western partners appear willing to surrender Moldova to its corrupt interests for the sake of a misguided geopolitical goal.

Why does this matter?



The nightmarish scenario of a breakdown of security in Moldova is unlikely. However, as Ukraine's 2014 anti-corruption protests and the subsequent Russian invasions of eastern Ukraine and Crimea have shown, war is possible. Moldova's separatist region of Transnistria, where several hundred Russian troops are stationed, could be used as a base for a Russian operation and threaten an already precarious region. Located on the border of Romania, a NATO ally, violence in Moldova could escalate to create a second front for Ukraine on its southwestern border in its war with Russia. Such a social conflict could be exploited by Russia under the guise of a co-ethnic rescue.

The capture of the Moldovan government by oligarchic interests is turning the small state into a major money laundering hub. Without a functioning judiciary, Moldova risks becoming a repository for dark money that could be used for financing terrorism and other nefarious activities. Until impunity is addressed in Moldova, the country will continue to teeter on the edge of instability and the tensions of the multi-ethnic state will remain unresolved. Conversely, the entire region stands to benefit from the dividends of a peaceful and stable Republic of Moldova that has achieved good governance.

What should Moldova and its foreign partners do?

- Work with Moldovan anti-corruption and civil society actors to apply greater pressure on the Moldovan government to reform by cutting official development aid if reform is not implemented.
- The United States needs to add Moldovans involved in corruption to the Specially Designated Nationals and Blocked Persons List as part of the Global Magnitsky Human Rights Accountability Act to undermine state capture in Moldova.
- The US, EU, and other development partners should continue to tie aid to progress in implementing reforms that support good governance. This will be especially important as a signal to Moldovan voters ahead of the 2018 election that Moldova's Western partners stand against corruption.
- The EU should adopt legislation similar to the US Global Magnitsky Act which would impose targeted sanctions on individuals proven to be involved in significant acts of corruption or human rights abuses.

Conclusion

Moldova's long-term democratic development is fundamentally undermined by the failure to isolate and reject the corrupt elites which retain control of the small Eastern European state. In preparation for the 2018 Moldovan election, the US and Europe Union must be clear that they stand against corruption and on the side of the Moldovan people. The US and EU should avoid even the appearance of tacit permission of state capture and follow suit with continued strong and active support for democracy, civil society, and rule of law to invest in enduring stability of the Republic of Moldova.

¹ "Anti-Corruption Glossary." Transparency International - The Global Anti-Corruption Coalition. Accessed May 01, 2018. <https://www.transparency.org/glossary>.

² Popșoi, Mihai. Propaganda Made to Measure: A Study of Romania, Bulgaria, Georgia and the Republic of Moldova. Report. Edited by Oana Popescu and Rufin Zamfir. The Black Sea Trust For Regional Cooperation, German Marshall Fund. 230-31.



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